

The ‘Danish Models’ of labour market regulation and their status after recent changes

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Abstract

When New Zealand commentators lament the low productivity, high inequality, low wage characteristics of the New Zealand labour market there are frequently pointed to the successful ‘Danish Model’. These references seldom highlight that there is more than one ‘Danish Model’ of labour market regulation and that these ‘models’ have changed over time. For several decades the ‘Danish Model’ of collective bargaining has been marketed as the cornerstone of Danish labour market regulation in Denmark and since the late 1990s, Danish ‘flexicurity’ has been praised as an ideal approach for both economic and labour market reasons. This article presents the main characteristics of these ‘models’ and discusses the impact of recent developments that have influenced key structures and institutions underpinning the ‘models’. The main conclusions are, first, that the ‘collective bargaining model’ is still reasonable intact despite the fact that considerable changes have taken place. Secondly, it is argued that the balance between flexibility and social security in the ‘flexicurity model’ has changed so much in favour of flexibility that the model should rather be termed *flexinsecurity*.

Keywords: labour market regulations, collective bargaining, ‘flexicurity’, union membership

Introduction

During the 1980s, one could hear Swedish industrial relations researchers speak proudly about the ‘Swedish Model’ as a model that was beneficial to the Swedish economy as well as Swedish workers (Hedborg & Meidner, 1984; Elvander, 1988). Likewise, Esping-Andersen (1990) divided the systems of welfare states into three ideal types, and he included all the Nordic countries (and a few others) into what he termed ‘universalist’ systems where market forces and competition were most modified. However, as the Swedish employers’ confederation sought changes to employment relations from late 1980s and the Swedish economy started to experience growth problems in the 1990s, then the ‘Danish Model’ was promoted by Danish researchers: “The Swedish model seems to be dismantled during these years, whilst the Danish model continues to exist” (Due, Madsen & Jensen, 1993: 14, our translation). In particular, the bipartite collaboration of Danish employer associations and trade unions – with its historical roots in the ‘Great Compromise’ (*Septemberforliget*) in 1899 – and the web of collective bargaining agreements were seen as both flexible and efficient.

However, Denmark has increasingly become renowned for its so-called ‘flexicurity’ model (Rasmussen, Foster & Farr, 2016). The content of the flexicurity model goes beyond the bargaining model. As explained below, it comprises a combination of elements from the collective bargaining

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model as well as employment and welfare policies (Bredgaard, Larsen & Madsen, 2007). Both 'models' are based on more or less explicit aspirations that they can function in ways that serve all involved parties well: employers, employees and society. They are also often subsumed under the notion of the 'Danish Model' though they are very different and have experienced different challenges in recent years. We seek, therefore, to highlight the differences between the two 'models' and their changes over time. We also want to investigate whether it still makes sense to talk about these models as Danish employment relations has been strongly influenced by neo-liberal ideas of labour market regulation (Standing, 1999).

In the first part of the article we offer brief presentations of the respective 'models', based mainly on descriptions from the Danish employment relations literature. In the article's second part, we address some of the key trends that have influenced the 'models' in recent decades. We focus on: 1) regulatory initiatives from the European Union (EU), 2) decentralisation of the system of collective bargaining, 3) weakening of trade union density, 4) weakening of the system of unemployment insurance, and 5) changes in employment policies. In the final part, we try to evaluate whether it is still meaningful to talk about these 'models' in light of their ongoing changes and whether the two 'models' are still dominating Danish employment relations.

The Danish models

In this first main section the two Danish models are presented in ideal-typical form. What are their main characteristics?

The bargaining model

In the bargaining model the emphasis is on the great importance of collective bargaining in regulating Danish employment relations. Key features include (Due et al., 1993; Jensen, 2007; Kristiansen, 2014):

- The employer organisations and trade unions themselves determine the rules regulating collective bargaining.
- Various forms of collective agreements dominate labour market regulation. Some issues which, in other countries, are typically regulated through legislation – for instance minimum pay and employment security – are exclusively, or mainly, regulated by collective agreements in Denmark. On the whole, legislation plays a limited role and the laws regulating the Labour Court and the Arbitration Council are framed in ways that mainly serve to support the autonomous regulation undertaken jointly by employer organisations and trade unions.
- For many decades, there has been a high degree of consensus between trade unions, employer organisations and the main political parties that the state should intervene as little as possible through legislation. In areas where there actually is legislation, such as occupational health and safety, the labour market parties have had the opportunity to strongly influence the aim and content of the legislation.
- The strong element of bipartite regulation is supported by relatively high membership rates for trade unions as well as employer organisations. Furthermore, the parties have traditionally been strengthened by the fact that employer organisations and trade unions have not been divided on religious or political grounds. As will be seen below, recent years have seen increased divisions on the trade union side.
- The bargaining model also includes collective agreements that regulate the role of shop stewards and their rights vis-a-vis management as well as a system of cooperation committees that stretches from workplace to company group level. Cooperation is seen by both parties as important for the fulfillment of employer and worker interests alike.

- The right to strike and lock-out is shaped in ways that support the bargaining system. There is a peace obligation as long as a collective agreement is in force, and strikes and lock-outs can only be applied when agreements are being renewed or in connection with attempts to achieve collective agreements in areas not hitherto covered. It is the right to strike and the readiness of trade unions to use this weapon that ultimately guarantees a certain balance in the model between employers and trade unions.

The bargaining model can be traced back to the so-called September compromise from 1899 which marked the end of a long and bitter confrontation between unions and employers. Over the years trust and respect between the parties have built up to an extent that the bargaining model can be said to be anchored to a joint ideology (Dunlop, 1958; Galenson, 1952). Both sides believe that this way of regulating labour market and working life is better than, for instance, a system based on detailed legislation or one that leaves it up to the employers to unilaterally determine the rules of the game. A recent example of this attitude was expressed by the Minister of Employment (a former president of the Employers' Confederation) in an interview about proposed tripartite negotiations: "If we are not able to reach a joint agreement, the Danish model will collapse over time. Then public regulation will take over. One of my goals is to prevent that" (Arnfred, 2015, our translation).

Industrial conflicts have been steadily decreasing during the past 10-15 years, but compared to countries like Sweden and Norway the industrial conflicts in Denmark are relatively frequent and comprehensive, and compared to most other European countries Denmark can be put in a middle or mixed group (Vandaele, 2016).

The public sector is not free of industrial conflicts and violation of collective bargaining rights. A recent example is from 2013, when a 25 day long conflict broke out between the teachers' union and their public sector employers, and the conflict ended up with Government intervention. The Government had just introduced a reform of the primary school which, among other things, included longer teaching hours for teachers. To avoid spending more money – on employing more teachers – the bargaining part on the employer side demanded the abandoning of a working time agreement from 2008, which stipulated working standards for teachers during a standard working week. It was clearly the intention to save money and, thus, finance the Government's education reform. It has been suggested that the Government may have pre-planned the break-down in negotiations and the subsequent intervention (Klarskov & Svane, 2017). If that is the case, it constitutes a clear breach of traditional collective bargaining processes and principles of good faith negotiations.

Another lesson from this conflict is that fragmented bargaining patterns are troublesome for individual unions. In 2013, the teachers' union stood alone, but trade unions in the municipality sector have declared, in 2017, that they will support the teachers' union in the upcoming bargaining round to ensure genuine collective bargaining and re-establish the lost working time agreement. This early declaration of intent from the municipality sector unions is a clear demonstration of the importance they attribute to upholding traditional bargaining processes.

The 'flexicurity model'

'Flexicurity' is a concept that obtained much attention among European Union (EU) policy makers since the late 1990s. Flexicurity has been advocated as an instrument that can further the goals of economic growth and employment growth in an integrated way. The concept connects two concepts, namely 'flexibility' and 'security', and suggests a situation of conditions where companies can employ, deploy and dismiss employees in accordance to their organisational needs (the flexibility

element) and where workers are guaranteed a decent living standard in case of unemployment as well as training that may help them get into a new job (the security part). 'Flexicurity' fitted well into the EU aim of creating a Europe which, at the same time, has an efficient economy and a social model that guarantees citizens and workers a degree of social security and participation, thus, securing a certain balance between financial and social goals and between employer and employee interests.

As researchers began to study different national systems of employment regulation from a flexicurity perspective, they found Denmark to be close to the ideal 'flexicurity' system (Auer, 2000; Ganssmann, 2000), with both flexibility for the companies and a certain level of security for workers. Delegations from the EU and individual EU member states went to Denmark to study the 'model', and many employment researchers, politicians and people from the 'social partners' praised the Danish flexicurity model (Beskæftigelsesministeriet, 2005; Bredgaard et al., 2007).

In brief, the Danish flexicurity model can be said to consist of the bargaining model plus something more, namely employment policies in the form of social security and public initiatives aimed at training and retraining the labour force and activating the unemployed. The following features are central to the Danish flexicurity model. *Firstly*, the bargaining model is shaped in a way that grants companies a relatively high degree of flexibility in relation to how they can utilise labour power. Numerical flexibility (personnel turnover) can be high as collective agreements do not contain strong protections against dismissal: notice periods are short and redundancy payment is almost non-existing. Thus, employers can employ workers without risking high expenses if these workers are later to be dismissed. Temporary flexibility (flexible working time) is allowed according to the sector-level collective agreements that generally stipulate that it is possible to make agreements at workplace level regarding flexible working hours and variations in the length of the working week. And functional flexibility (flexibility in the work situation itself) can be achieved because unions are generally positive towards doing away with, or at least softening, traditional barriers between occupations and jobs as part of workplace collaborations in works councils and at management level.

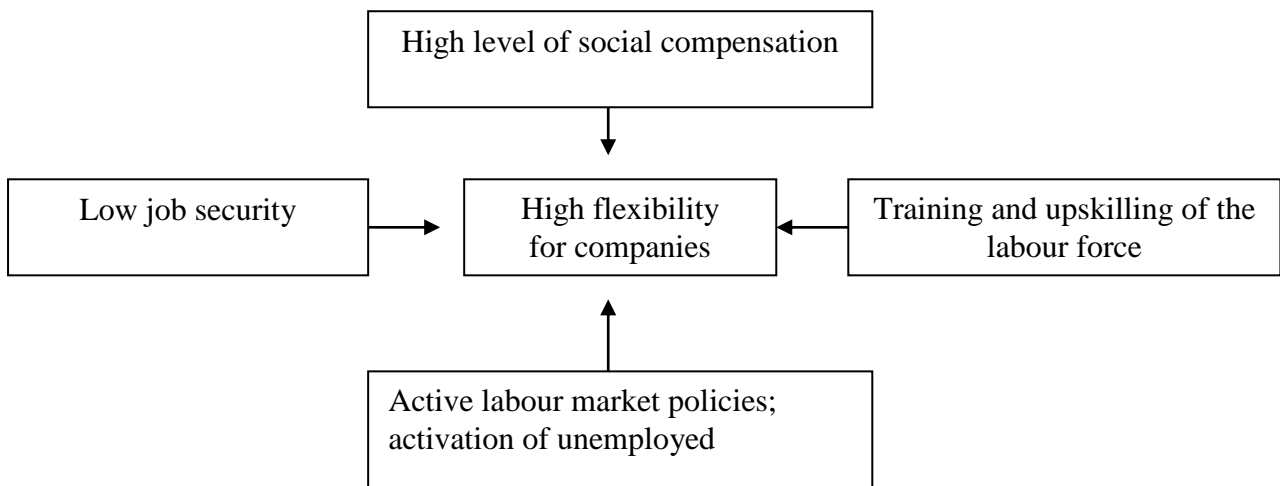
Secondly, government policies also contribute to flexibility. In particular, this occurs through extensive training and employment policies which lead to an ongoing up-skilling and re-skilling of workers, often in collaboration with employers and unions and in line with the staffing needs expressed by companies and employer associations. These active labour market policies provide services to the unemployed so that they are better equipped to get into new jobs, and services to companies so that they can continuously change their mix of employment as new job needs appear.

Thirdly, the welfare state compensates for problems that are often created by the bargaining model and having a highly fluid labour market. The low level of protection against dismissal found in the bargaining model is, to some extent, compensated by the legislation on unemployment benefit, an early retirement scheme, etc. Compared to most other countries, Danish legislation has traditionally secured the unemployed a relatively high and secure income. At the same time, employment policies provide help to job seekers. In other words, the low level of *job* security in the Danish system is compensated by relatively high degrees of *employment* security and *economic* security (see Standing (1999) who distinguishes between a number of different forms of (in)security in relation to working life).

In total, the Danish flexicurity model means that companies have a high degree of flexibility – primarily due to features inherent in the bargaining model, but also due to large social security and vocational training and education expenditures. At the same time, workers enjoy a relatively high degree of socio-economic security. The model grants considerable autonomy to employers, workers

and their respective organisations, while it is the state and the taxpayers that pay for the services provided. Where the ‘bargaining model’ is at its core, a bipartite model, the ‘flexicurity model’, in essence is a tripartite model. The state is an important actor, not least in financing the costs of the policies that underpin flexibility, whereas the labour market parties enjoy great influence on the shaping and administration of the rules that regulate working life. The main features of the model are shown in Figure 1.

Figure 1: The flexicurity model



In the next section, we will focus on the question whether the ‘models’ are still, today, how they have been described in the literature.

Changes affecting the Danish ‘models’

Following many years of neo-liberal criticism of generous welfare systems and state interventions in employment relations, frequent doubt as to whether the ‘Danish Models’ could survive or lose their effectiveness has been raised (Borchost , Caraker, & Jørgensen, 2012; Due & Madsen, 2006; Knudsen & Lind, 2012). In the coming sections, we will deal with certain key developments that have challenged the ‘Danish Models’ over the last two decades. It will be shown that there have been considerable changes and this makes it necessary to ask: are the ‘models’ still there and are they still relevant?

We shall here deal with four recent developments, namely: first: the effects of EU membership and EU regulation; second: decentralisation of collective bargaining; third: declining trade union membership; and fourth: the cuts in unemployment benefits and the declining ambitions of employment policies. These are all developments that have changed the nature of exchanges taking place between the parties within the ‘models’ as well as having had repercussions on the balance of power associated with the ‘models’.

The effects of EU membership and EU regulation

In the Danish debate, initiatives taken by the EU have often been regarded as threats to the Danish bargaining model (see Due, Madsen, & Lubanski, 2000). The 'single market' introduced by The Single European Act in 1987 was supplemented by political and economic reforms during the 1990s, where a number of EU Directives targeted employment relations (Keller & Platzer, 2003). The Directives prescribed common market regulation so that the free movement of capital and labour was strengthened. In addition, the Directives attempted to reduce existing national differences in social and employment protection (Hoffmann, Jacobi, Keller, & Weiss, 2003). Although many trade unions and some employer organisations were originally sceptical regarding the market ideals of the EU, a positive development in employment and wages took place from the mid-1990s till the outbreak of the crisis in 2008. It also turned out that fears about the 'Danish Models' were exaggerated. Overall, the EU Directives have yet to reduce employment standards in the Danish labour market and the collective bargaining system has maintained – despite more legislation – its key importance in the regulation of the Danish labour market. However, there have been several important changes as outlined below.

Directives on working time have had significant impact. The Working Time Directive (93/104/EC; now 2003/88/EC) and the Directive on Part-time Work (1997/81/EC) (based on an agreement signed by employer organisations and unions at the European level) have had to be implemented. An attempt by the Danish government, strongly supported by trade unions and employer organisations, to implement these directives through collective agreements, was rejected by the European Commission, as it could not ensure that all Danish employees would be covered. On that basis, the Danish Government backed down and implemented the regulations (Knudsen & Lind, 2012). The Posted Workers Directive (96/71/EC) and The Service Directive (2006/123/EC) have also influenced the trade unions' ability to take industrial action in pursuit of a collective agreement; a central feature of the Danish collective bargaining model.

A more serious challenge to the Danish collective bargaining model are European Court rulings. A 2006 decision on the freedom to organise was the decisive farewell to closed shops in Denmark (Applications 52562/99 and 52620/99, European Court of Human Rights). While many trade unions saw the ruling as a heavy blow to the 'Danish Model' it was estimated that only 200,000 workers were covered by closed shop agreements in 2006. In the European Court of Justice, the Laval case (C-341/05) from 2007 and the related Viking (C-438/05) and Ruffert (C-346/06) cases have had serious implications (Bücker & Warneck, 2010). At the core of the Laval case was the question whether unions in a host country could take industrial action seeking to force an employer employing workers from a different EU member state to sign a collective agreement. The Court demanded that companies should be able to know the expected wage level in an area but this can be difficult in Denmark where there is no minimum wage if there is no collective agreement. To deal with this uncertainty, legislation was passed in Denmark in 2008, where industrial action was legal provided that the foreign employer was informed about the normal level of pay.

It is still too early to evaluate whether the 2008 legislation has solved the issue but, subsequently, there is a growing tendency that foreign companies employ non-Danish workers and their employment arrangements are outside the framework of the Danish collective bargaining model (Hansen & Hansen, 2009). However, the Danish trade unions had a major victory against the notorious anti-union airline Ryanair in 2015. The Danish Labour Court ruled that Danish unions were entitled to take industrial action to seek a collective agreement when Ryanair established hubs in Copenhagen and Billund airports. Ryanair reacted to the decision by moving the hubs to airports in neighbouring countries (Sinander, 2015).

The relatively few reports available on wages and working conditions among migrant workers show that the biggest differences between Danish and migrant workers can be found in foreign companies with posted workers. In general, the migrant workers are paid less than the Danish workers, their working environment is poorer, they work longer hours, the intensity of work is higher and often their living conditions are poor. Further, their union membership rate and collective agreement coverage are much lower (Arnholtz & Hansen, 2011; Hansen & Hansen, 2009; Pedersen & Thomsen, 2011). The proportion of foreign workers was estimated to be about five per cent of the total labour force in 2013, but has increased significantly over the last decade (Schytz Juul, 2013).

Outside a few statutory minima, it is the trade unions' major role to curtail any undermining or violations of collectively agreed norms. However, they are faced with two problems. *First*, union density has declined slightly in recent years (see Table 1) and collective bargaining coverage has been reduced. Still, even a 100 per cent coverage of collective agreements would not solve the problem entirely. Most national collective agreements contain some very flexible elements – not least regarding wages. Some agreements for white-collar workers have no stipulations about wage level at all, and for most workers, pay is negotiated at the individual plant. *Second*, the unions are against legislation being introduced as a solution (Dølvik, 2016; LO, 2011). Thus, there is no support for introducing a statutory minimum wage, though this could be an effective measure to counter treats of cheap foreign labour undercutting Danish wage norms.

So, has the Danish membership of the European Union tended to undermine the Danish collective bargaining model? To some extent, yes. The free movement of labour and the increased competition for jobs in the single European market, as well as problematic pieces of regulation, such as the Laval ruling, has made it more difficult to keep everybody under the umbrella of the collective bargaining model. However, at the same time, the Danish collective bargaining model has appeared rather robust so far and collective bargaining is still norm-setting for most employees working in Denmark.

Decentralisation of collective bargaining

The decentralisation of Danish collective bargaining started in the early 1980s when individual unions and bargaining cartels took over negotiations from the main union confederation, the LO. A similar change took place on the employer side where the member organisations of the employers' main organisation, the DA, conducted the negotiations. Comprehensive organisational changes in the DA during the early 1990s completed these 'decentralised' bargaining structures, and since then, there have been four or five industry agreements in the private sector. The bargaining system in the public sector is divided into three areas: state, regions, and municipalities, with cartels composed of several unions representing the employee side.

Apart from a few company level agreements (mainly in companies that were not members of employer associations), the existing bargaining structure is still based on national coverage but bargaining has been moved from the level of main confederations to individual employer associations or unions (or often a union cartel). A more radical change in the direction of decentralisation started in the early 1990s when wage setting increasingly moved towards the individual workplace. This flexible system now covers around 85 per cent of the agreements with national level wage setting only stipulating minimum wages and wage levels are then supplemented with pay increases negotiated at workplace level.

In the public sector, decentralisation of wage setting was introduced in the late 1980s with the so-called 'local wage' system and further expanded by individualised pay rises in the so-called 'new

wage' agreement in 1998. After a decade of significant scepticism among public sector employees and their unions, these decentralised and individualised wage systems have become the norm and have increased wage differences among public sector employees.

There is no doubt that the decentralisation of wage setting has been a significant tendency during the past 20-25 years, but it is also evident that this decentralisation has not been implemented in a way where wage setting is completely individualised and only decided at the workplace level. This is due to opposition amongst trade unions as well as employer associations since employer associations are interested in controlling the general level of wage rises in order to keep Danish employers internationally competitive. Thus, the present system has been termed 'centralised decentralisation' (Due & Madsen, 2006) or 'coherent fragmentation' (Lind, 2004) to describe that it is an exaggeration to label collective bargaining in Denmark as being decentralised. Compared to many other OECD countries, national collective bargaining is still norm-setting, and employer association and trade unions continue to have considerable influence on workplace negotiations.

Decentralisation of negotiations and workplace wage bargaining have changed the balance of power in favour of employers, particularly since industrial action cannot be taken in respect of workplace negotiations (Kristiansen, 2014). It has yet to change the bipartite character of the collective bargaining model since trade unions still play an important role, in national as well as local bargaining (including avoiding reduction in employment conditions in nearly all agreements). While it has increased the flexibility side of the 'flexicurity model', it has decreased the lack of income security experienced by many workers and created more wage differences across similar types of jobs.

Decreasing membership of trade unions

A key feature of the collective bargaining model is the high trade union density. In the literature, the high union membership rate in Denmark has often been linked to, if not explained by, the important role of the bargaining system (see Due et al., 1993). Undoubtedly, the bargaining system plays a role, but there is strong evidence that suggests that an even more important factor is the close connection between trade unions and unemployment benefit funds. In Denmark, the so-called Ghent system was introduced at an early stage (1907). In this system, unemployment insurance is administered by the unions, which means that unions and unemployment funds historically have been seen by workers as one and the same thing (Lind, 2009). The unemployment funds are in charge of key elements of social security, notably unemployment benefits and the early retirement scheme (in force since the late 1970s). Relatively few countries have systems that are comparable to the Danish system, Finland and Sweden (at least until recently) being the most important ones and, indeed, with affiliation rates similar to the Danish ones.

Unlike in many other western countries where union density fell from the 1980s and more or less has done so ever since, the union affiliation rate actually increased in Denmark until the millennium turn. Since then, especially the unions associated in the LO have experienced a significant loss of members, cf. Table 1. The LO unions' membership peaked in 1996.

Table 1: Members of trade unions in Denmark (000s)

Year	1970	1980	1990	1995	2000	2002	2004	2006	2008	2010	2012	2014
Labour force*	2027	2384	2669	2648	2659	2672	2656	2667	2723	2704	2591	2594
LO	894	1250	1423	1510	1459	1433	1386	1339	1251	1201	1123	1050
FTF	156	277	325	332	350	356	359	363	359	358	353	346
LH (Organisation for Managerial Staff)	-	-	71	75	80	76	76	74	76	83	91	95
AC	-	70	103	132	150	161	165	166	174	137	142	203
Outside LO, FTF, LH, AC	111	197	130	114	123	125	140	172	202	271	344	290
All trade unions	1162	1794	2051	2163	2162	2151	2127	2114	2062	2050	2053	1984
Per cent of labour force	57	75	77	81	81	81	80	79	76	76	79	76

Remarks: *self-employed not included. Note: Danmarks Frie Fagforeninger (The Free Trade Union in Denmark) not included. Engineers left the AC in 2009 and joined again in 2014 (43,000 members in 2009).

Source: Danmarks Statistik

Table 2: The confederations' share of total membership (per cent)

	1970	1980	1990	1995	2000	2002	2004	2006	2008	2010	2012	2014
LO	77	70	69	70	68	66	65	63	61	59	54	53
FTF	13	15	16	15	16	17	17	17	17	17	17	18
LH (Organisation for managerial staff)	-	-	3	3	4	4	4	4	4	4	4	4
AC	-	4	5	6	7	7	8	8	8	7	7	10
Outside LO, FTF, LH, AC	10	11	6	5	5	6	6	8	10	13	18	16

Source: Own calculations. See remarks to Table 1 regarding Engineers' union.

The LO, which is the confederation of unions organising the traditional working class, has lost terrain relatively as well as absolutely. Among the two other traditional confederations, the FTF (salaried employees) has experienced stagnation whereas the AC (employees with a higher education) has increased its membership figures, and also now has a stronger relative position. This appears very clearly after the engineers re-joined the AC in 2014. What is the most conspicuous change, however, is the relatively strong growth of unions that stand outside the three confederations. Most of the unions in this category are so-called yellow unions (although the Union of Engineers was also included from 2009 to 2014 (in Table 2 in 2010 and 2012)). Exactly this development must be interpreted as a weakening of the Danish model.

The LO is still by far the most important main organisation, but it has lost more than 400,000 members since the mid-1990s, and the day where the LO will represent less than 50 per cent of organised labour in Denmark is getting close. The LO's membership loss is partly due to changing occupational structures. Fewer people are employed in the industries and trades that typically are basis for LO member unions. Changing occupational structures (more people with higher education) are also the main explanation for the growth among AC-unions.

As noted above, the most remarkable change is an increase in organisations outside the main organisations (LO, FTF and AC). Among these organisations, the Christian Trade Union (*Kristelig Fagforening*) has existed for many decades, whereas others are relatively new on the scene, including a number of organisations organised under an umbrella termed the Professional House (*Det Faglige Hus*). Since 2002, these ‘yellow’ unions have got close to 150,000 new members – or ‘customers’ as they call their members. Some of the new members choose these unions for ideological reasons (political, religious), but the main reason is probably financial, since membership fees are relatively low, compared to traditional trade unions. The ‘yellow’ unions are able to provide certain services, mainly legal assistance, to their individual members. However, they are clearly less powerful than the traditional unions and have only, on rare occasions, managed to be parties to a collective agreement at workplace level. Neither the traditional trade unions grouped in the LO, FTF and AC nor the employer organisations recognise the alternative unions as part of the ‘Danish Model’. Still, they constitute a rapidly growing element among Danish union members. They can be seen as the system’s ‘free riders’, as they often enjoy the same pay and working conditions as those of their colleagues who are members of the ‘real’ unions, those that fight for and sign the collective agreements. There is a limit to how long the Danish collective bargaining model can continue as if nothing has happened, if the growth of ‘yellow’ unions continues at the expense of the traditional unions.

Part of the explanation of the decreasing affiliation to the traditional unions, and to falling union membership more generally, must be found in developments in the unemployment insurance system. Membership of unemployment funds remained relatively stable at around 2.2 million members till the end of the 1990s but, from 2000 to 2008, unemployment funds lost 120,000 members. After the beginning of the crisis in 2008, the decline was more moderate until 2013, when it accelerated again due to a severe tightening of eligibility (see below). We will now turn to this issue: the political regulation of unemployment and its relationship to the Danish models.

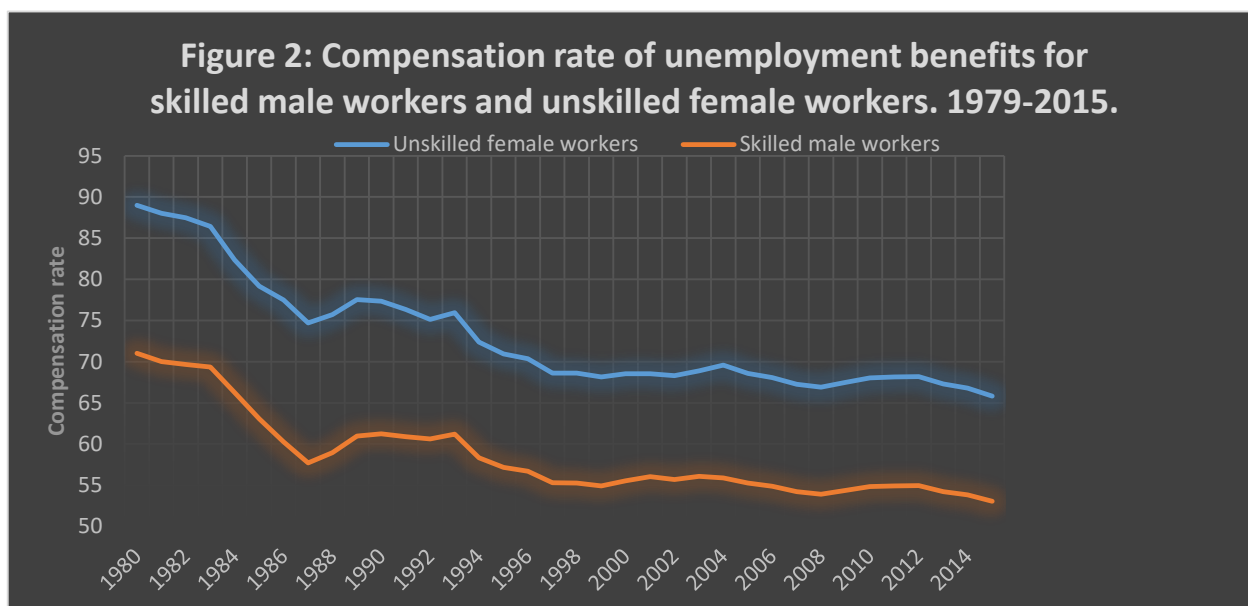
The decline of the unemployment insurance system

As mentioned earlier, the special construction of the unemployment insurance in Denmark (and Sweden and Finland), the Ghent system, is of great importance to trade union membership rates (Lind, 2009). If membership of the unemployment insurance system is made less attractive – as has been the case during the past decades – fewer people will join the insurance system and most likely also the unions.

During the 1960s and 1970s, major reforms of employment policies changed the unemployment insurance system in two important aspects. Firstly, unemployment benefits were raised to 90 per cent of former wages (with a general maximum of 90 per cent of average pay) which meant that low paid workers were compensated by 90 per cent of former wages while higher paid workers had a lower compensation rate. The average compensation rate was, however, around 80 per cent during the 1970s. Secondly, the state financed extra expenses in periods with high unemployment rates (via general taxation) and membership dues contributed less and only financed about 10 per cent of total expenditures. During the 1970s, the coverage of the unemployment insurance system was expanded and came to include more and more groups in the labour market: self-employed, soldiers, part-time employees, and newcomers to the labour market, such as apprentices and students finishing their education. Furthermore, the access to unemployment benefits was widened by longer periods of entitlement and weaker demands and controls on the unemployed.

The more generous approach to unemployment benefits was reversed from the late 1970s onwards. The first access limits were introduced in 1979 and since then, the unemployment insurance has been

made less attractive by numerous cuts and measures aimed at controlling the availability of unemployed to take up vacant jobs. The period for claiming benefits was, in principle, without limits in the early 1980s but has since been reduced several times. In the last change taking effect from 2013, the period to claim unemployment benefits was reduced from four years to two years. From January 2013 to July 2015, 60,000 persons lost their unemployment benefits because of these restrictions in eligibility (AK-Samvirke, 2015). Furthermore, since 1982, the level of unemployment benefits have failed to match wage increases and inflation with the result being that the average compensation rate has dropped from around 80 per cent in the late 1970s to approximately 50 per cent in the current decade (LO 2006; Det Økonomiske Råd, 2014). Figure 2 shows the decline of the compensation rate for skilled male workers and unskilled female workers.

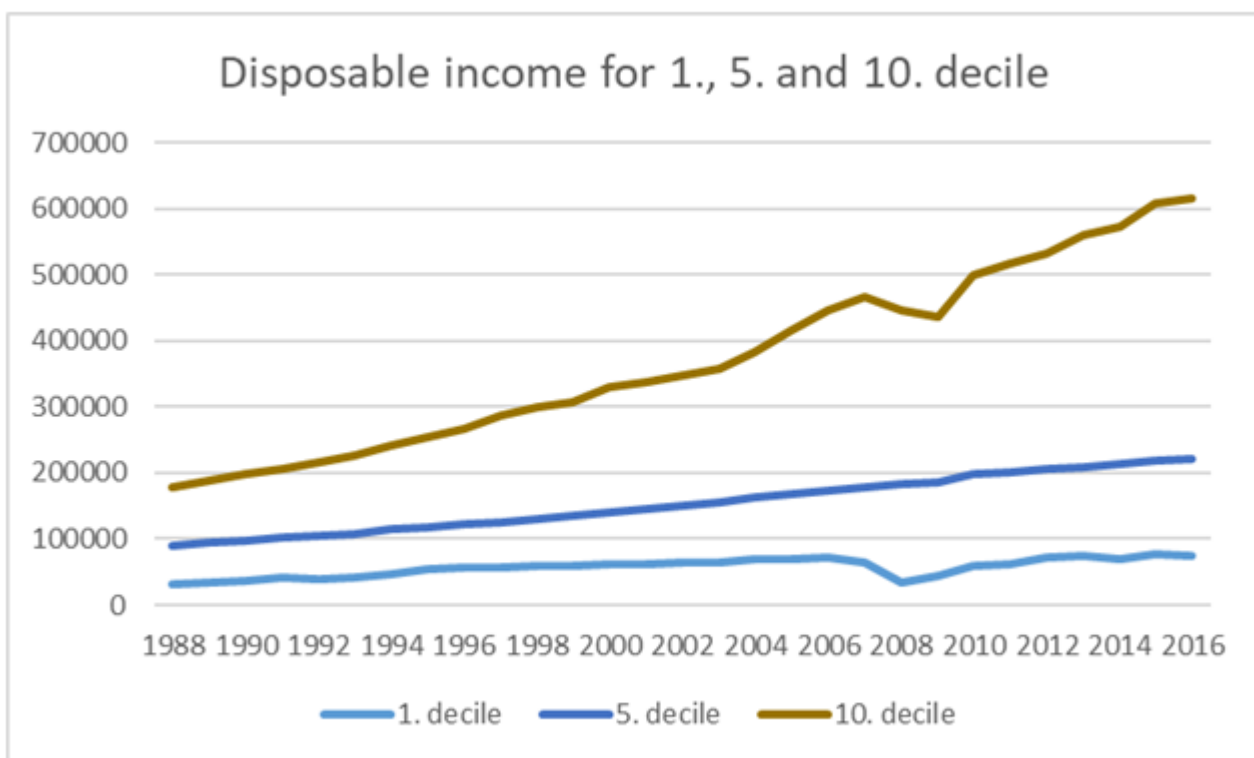


Source: CASA: Social Årsrapport, 2015

Structurally, the traditionally close ties between unions and unemployment funds were weakened by changes introduced shortly after a right-wing government took power in 2001. The conditions that linked unemployment insurance to specific trades, occupations or segments of the labour market were liberalised so that ‘cross-occupational’ funds were allowed. This made it possible for the so-called ‘yellow’ unions (all of which are open to workers from all sectors and occupations) to set up unemployment insurance schemes and, thus, make the package they can offer to members more attractive.

Employment policies in Denmark were, for a few decades, characterised by the so-called ‘active labour market policy’. It was developed in the 1950s and 1960s on the basis of mainly Swedish ideas (the so-called Rehn-Meidner model; see Hedborg & Meidner, 1984) and was never quite as ambitious in Denmark as in Sweden. It was designed to support general economic policies to strengthen economic growth, combat unemployment and inflation and secure an acceptable level of social justice (redistributive policies). In theory, qualification and geographical imbalances between various segments in the labour market could be reduced by training unemployed people in one segment to qualify them for another segment where demand exceeded supply of labour (and therefore might cause inflation). Or, in case of unemployment in one geographical area, workers would be financially supported to move or commute to an area with excess demand.

Since a labour market reform in 1993, activation of the unemployed has been a main pivot for ‘active labour market policies’, thus shifting the focus from the demand to the supply side. The rationale of activation measures have increasingly become to discipline the unemployed, so that they are prepared to accept whatever vacant job there might be (Møller, Lind, & Hansen, 2008). In general, the tendencies in unemployment policy during the last 10-15 years have been: a) to reduce the access to unemployment benefits, b) increase activation (job offers, subsidised jobs, short training periods) and c) reduce temporary or permanent withdrawal from the labour market (by abolishing the leave schemes introduced in 1990s, abolishing the early retirement scheme for people between 50-60 years, and making the early retirement scheme (originally for unemployment fund members between 60 and 67) much less attractive). These changes have been introduced with explicit reference to structural problems and ‘bottlenecks’ in the labour market and the fear of not having the sufficient amount of labour to secure the welfare state in future. Welfare cuts have been legitimised by the necessity to save the welfare state!



Source: Danmarks Statistik, Statistikbanken.

As can be seen from the figure above, the combined effect of the neo-liberal policies since the 1980s – one of them being the cuts in unemployment benefits – has resulted in increasing inequalities in Denmark. The disposable income in the lowest decile has increased by around 50,000 Danish Kroners, the middle decile has increased by 100,000 and the highest decile has increased from around 200,000 to 600,000. The increasing inequality is the cost of a strengthening of market forces and competition combined with a less ambitious welfare policy. While Danish income inequality is still considerably less than that found in most other OECD countries, the trend has clearly been in one direction and there are now concerns whether this growth in income inequality will be continue in the future.

With the cutbacks in unemployment insurance and the deployment of activation policies as a disciplining – and not qualification – measure for the workers, employment policies have changed

profoundly since the 1970s. The main intention is no longer to compensate workers who have lost their job, but to strengthen the incentives for them to seek a new job, thereby increasing competition in the labour market with the aim of keeping down wage levels. Until the early 1980s, the general interpretation and political understanding of unemployment was that unemployment was due to the malfunction of society. Since then the conviction has spread that unemployment is caused by the individuals themselves. Accordingly, social security provisions shall not compensate for malfunctions of the system, but must be sufficiently low to ensure that the incentives of the individual to take a job are improved. Labour market flexibility is, hence, no longer achieved through social security based upon relatively high unemployment benefits and opportunities for training and education for the next job, but rather flexibility is based upon fear of unemployment and poverty. As a consequence, the Danish type of flexibility is moving away from the 'flexicurity model' and is getting closer to the Anglo-American model; that is, flexibility is predominantly based on employer prerogatives and being less influenced by trade unions and social welfare benefit levels provide a 'real incentive' to take on available jobs and their employment conditions.

Conclusion

The 'Danish Model' of employment relations is renowned amongst OECD countries. However, as shown, there are two 'Danish Models' and these models have faced considerable challenges and changes over time. The changing context and patterns of Danish employment relations – weakening of trade unions, decentralisation of collective bargaining, increased competition in the EU single market, a much less generous system of unemployment insurance and lower ambitions in employment policies – are important challenges. The challenges have had a negative impact on the collective bargaining model where slightly lower union density and the rise in 'yellow' unions are clear danger signals. There have also been power balance changes within mainstream union confederations.

The Danish collective bargaining model is still there. However, its core has changed from a model where two parties with distinct interests communicated continuously with each other and now-and-then agreed to make compromises, to a model in which both sides still communicate with each other but where the gains accruing to labour have become less and less visible. While the 'centralised decentralisation' of collective bargaining has shifted employer-union power balances this article has argued that decentralised bargaining patterns have had a more significant impact on the 'flexicurity model'.

Still, most international union movements can only look in envy on the Danish union density figures and these density figures indicate a considerable resilience of the collective bargaining model. This is also a necessity since there is a very limited legislative safety net for employees outside the coverage of collective bargaining. The trade unions' adversity to support a comprehensive safety net for all employees has been raised in international analyses (eg. Dølvik, 2016) but this adversity provides a strong incentive to join unions and it also aligns with employer animosity towards 'unnecessary' legislation. Likewise, the public sector unions' joint stance in support of genuine collective bargaining for school teachers in 2017 is another indication that collective bargaining rights are seen by the unions as being of vital importance for the survival of the collective bargaining model.

However, the 'flexicurity model' has coped less well with the contextual and political changes. Wages and working conditions are increasingly affected by market forces and less by organised labour. This is partly associated with a less effective collective bargaining coverage and partly with a more globalised and fragmented labour market. In light of the fall-out from the Great Financial

Crisis, the Government has been an active supporter of any development supposed to improve competitiveness for Danish products and services. This has included cuts to welfare state provisions, vocational education and training and employment-supporting mobility measures. These cuts have often been advocated as necessary to save the financial foundation of the Danish welfare state.

Recent changes have undoubtedly increased employer-determined flexibility, but the rise in income inequality indicates the wider negative impact across the workforce. With increase income differences coupled with serious deteriorations in social security, particularly in the unemployment benefit system, the security part of the equation has been reduced considerably. When the dominant elements of the 'flexicurity' employment policies are geared to achieving employer-determined flexibility by fear and insecurity instead of social security networks, then we should rather talk of 'flexinsecurity'.

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